IIEC Exhibit 4

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS POWER COMPANY	:	
	:	
Proposed revisions to delivery service tariff sheets and other sheets	:	**Docket No. 01-0432**
	:	

Rebuttal Testimony of

Robert R. Stephens

On Behalf of

Illinois Industrial Energy Consumers

November 2001
Project 7626

BRUBAKER & ASSOCIATES, INC.

OFFICIAL FILE

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<u>REBUTTAL TESTIMONY OF ROBERT R. STEPHENS</u>

I. Introduction

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Robert R. Stephens, 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000.

Q **ARE YOU THE SAME ROBERT R. STEPHENS THAT SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

A Yes, I am.

Q **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A I will respond to various rebuttal testimonies of Illinois Power Company (IP or Company) witnesses and certain direct testimony of the Staff of the Illinois Commerce Commission (Staff) in this case. The issues I address are:

- IP's rates and the promotion of a competitive market
- Standby capacity requirements
- Reactive demand charges
- Transformation charges
- Rider ISS

- Rider PRS
- Ultimate consumer of transmission service
- Rider PPO service

My failure to respond to any witnesses' testimony or position should not be construed as implied endorsement or acceptance of that testimony or position.

II. IP's Rates and the Promotion of a Competitive Market

Q **AT PAGE 10 OF HER REBUTTAL TESTIMONY, IP WITNESS JACQUELINE K. VOILES (IP EXHIBIT 5.11) INDICATES THAT IP'S UPDATED SWITCHING STATISTICS SHOW THAT 1.4% OF IP'S NON-RESIDENTIAL CUSTOMERS HAVE SWITCHED TO DELIVERY SERVICE AND THAT THIS IS NOT SIGNIFICANTLY DIFFERENT FROM COMMONWEALTH EDISON COMPANY'S (COMED) COMPARABLE FIGURE OF 2.9%. DO YOU CARE TO COMMENT?**

A Yes. Whether or not IP's switching level is significantly different from ComEd's is not entirely the point. The more material fact remains that two years into open access for non-residential customers, only a tiny percentage has switched.[1] If this trend were to continue indefinitely, in 20 years, only 16% of IP's non-residential customers would have switched to delivery services.

Q **MS. VOILES ALSO MAKES A POINT TO INDICATE THAT IP CURRENTLY HAS NINE CUSTOMERS OVER 1 MW TAKING POWER SUPPLY FROM ANOTHER**

[1] To update Ms. Voiles' figures, the updated switching statistics for IP and ComEd are 1.6% and 3.0%, respectively, of non-residential customers taking delivery services as of September 30, 2001 (from ICC website). Additional and more detailed information from ComEd indicates its current switching level is actually about 5%.

SUPPLIER AS AN UPDATE TO THE FIGURE OF TWO CUSTOMERS THAT WERE DOING SO AT THE END OF 2000.[2] DO YOU CARE TO COMMENT?

A Yes. Nine out of 223 such customers represents a dismal 4% of large customers who are receiving a competitive power supply. While nine is a larger number than two, it is still clear that competitive suppliers have not made significant inroads with these customers in the IP service territory. I reiterate my position in my direct testimony that the Commission should take all measures within its authority to remove barriers from customers trying out the competitive market.

Q MS. VOILES TAKES ISSUE WITH THE FACT THAT YOU DID NOT ENUMERATE THE REASONS WHY YOU BELIEVE THE COMPETITIVE MARKET IS NOT DEVELOPING SUFFICIENTLY IN THE IP TERRITORY. DO YOU CARE TO COMMENT?

A Yes. Ms. Voiles' testimony in this regard surprises me. She seems to go out of her way to make the point that my testimony "notes only in passing" the reasons, and "without mentioning any specific reasons." I stated very clearly why I did not enumerate them, indicating that some of them are beyond the Commission's control, while others are within the Commission's control.[3] What is important though, is that the Commission can in this proceeding implement tariff changes and policy choices to enhance competition.

Q MS. VOILES STATES AT PAGE 10 THAT SHE FAILS TO SEE HOW IP IS RESPONSIBLE FOR DECISIONS THAT CUSTOMERS MAKE ON THEIR OWN, OR WITH THE ASSISTANCE OF AN AGENT OR CONSULTANT, AS TO WHOM THEIR

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[2] IP Ex. 5.11, page 10, lines 206 – 209.
[3] See IIEC Ex. 4 at 6-7.

ENERGY SUPPLIER WILL BE. DO YOU BELIEVE IP SHOULD BE ABSOLVED OF RESPONSIBILITY IN THIS REGARD?

A No. The decisions that customers make, and consultants on their behalf, are heavily, if not completely, influenced by the options presented to them. Large customers' options are significantly limited by the lack of competitive activity within the IP service territory. For the reasons described in my direct testimony I believe IP's actions have a direct bearing on the level of competition in the IP service territory to date.

Q **MS. VOILES POINTS OUT THAT ONLY 15% OF 393 IP CUSTOMERS LESS THAN 1 MW THAT HAVE SWITCHED TO DELIVERY SERVICES ARE TAKING SERVICE UNDER RIDER PPO.[4] DO YOU SEE THIS AS AN ENCOURAGING SIGN OF MARKET DEVELOPMENT FOR THESE RELATIVELY SMALLER IP NON-RESIDENTIAL CUSTOMERS?**

A No. To a large degree, IP's numbers speak for themselves. Even though 332 of IP's customers smaller than 1 MW purchased their electricity from an alternate supplier, this constitutes about 0.5% (one half of one percent) of the 64,000 eligible customers of this size shown on IP Exhibit 6.9. I am not impressed by Ms. Voiles' figures in this regard.

More importantly, however, the Commission apparently is not impressed either, as was indicated in the same report quoted by Ms. Voiles. I quoted language from that report in my direct testimony and show it again below:

> ". . . [A]lmost all of the customers' purchasing power from RESs operating in the AmerenCIPS and the Illinois Power service territories <u>are members of a single aggregated group, which was formed for the express purpose of purchasing electricity</u>. In addition to the members of this group, a few other customers are purchasing power from RESs in these service territories. Thus, the extent of retail activity is more limited in the down-state service territories than it might appear." ("Assessment of Retail and

[4] IP Ex. 5.11, page 11, lines 225-228.

Wholesale Market Competition in the Illinois Electric Industry," at 6) (Emphasis added)

Q **MS. VOILES NOTES THAT IP'S REQUESTED TRANSMISSION RATE INCREASE WILL HAVE NO IMPACT ON THE CUSTOMERS' TOTAL BILL FOR THE VAST MAJORITY OF IP'S CUSTOMERS ELIGIBLE FOR DELIVERY SERVICES WHO PAY A TRANSITION CHARGE.[5] HOW DO YOU RESPOND?**

A I urge the Commission not to neglect the importance of IP's proposed changes in both its transmission and distribution rates and the potential impact on the competitive market simply because most IP customers, if they began delivery service today, might currently have a positive transition charge. The wholesale market on which IP's transition charges are based has dropped dramatically in the period between the time IP's market value index was approved (in the spring of 2001) and the time when Ms. Voiles made her comments. In fact, as I pointed out in my direct testimony in the ComEd delivery service tariff case, the forward market for on-peak prices dropped by approximately 25% during this period. Consequently, customers with a transition charge anniversary date in the fall of this year are much more likely to have positive transition charges than those whose anniversary date fell last winter or spring.

However, just as the wholesale market has moved significantly downward since last spring, the market could swing back the other direction in the future, yielding more zero transition charge customers.[6] Increases in delivery service rates (whether transmission or distribution) go straight to the bottom line for customers who have a zero transition charge and will impede their efforts in procuring energy from other suppliers.

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[5] IP Ex. 5.11, page 13, lines 273-275.

[6] Indeed, the forward market for on-peak power for calendar year 2002 has crept back up about 5% in the one-month period between October 1, 2001 and November 1, 2001. (Source: *Platt's Energy Trader*, one of the two on-peak data sources used by IP in establishing its market value index).

As the transition charges phase out over time (with complete elimination after 2006), customers will increasingly feel the negative impact of inflated delivery service charges.

Consequently, the Commission must ignore the temporary and potentially offsetting impact of the transition charge and establish delivery service rates that are just and reasonable in this case. What a customer pays for the commodity the utility delivers is irrelevant to the determination.

Q MS. VOILES STATES THAT SC 24 AND RIDER S ARE NOT AT ISSUE IN THIS DOCKET, AND THAT IIEC HAS MADE SIMILAR PROPOSALS IN PRIOR DOCKETS THAT WERE REJECTED BY THE COMMISSION. DO YOU HAVE ANY RESPONSE?

A Yes. As I explained in my direct testimony (which has not been rebutted by Ms. Voiles), there can be interrelationships or interactions between bundled services and delivery services. As a general matter, changes in rates or rate structure may have intended or unintended impacts on other rates. Their interaction may require consequent changes. This concept has not been lost with the advent of delivery services. Consider that in 1999, a number of utilities made a considerate effort to ensure that the delivery service rate design was comparable to the bundled service rate design.[7] Moreover, despite Ms. Voiles' protestations, the fact is in 1999 IP did make changes to SC 21.

In terms of the import of whether the Commission accepted prior IIEC proposals, IIEC knows that since 1999, the Commission has in multiple instances expressed its very legitimate concern over the lack of customer choice in downstate utilities such as IP. The Commission and other stakeholders have had the benefit of the passage of time since 1999 to examine more closely the barriers or obstacles to implementing customer

[7] For example, IP touted the importance of maintaining rate continuity between facilities charges under bundled and delivery service rates in its last DST case. (See Illinois Power Company, Ill.C.C. Dkt. Nos. 99-0120/99-0134, Order at 59 (August 25, 1999).)

choice, and I believe the Commission will be receptive to IIEC's and others' proposals that intend to address such issues in this and other proceedings.

Q MS. VOILES ALSO OFFERS THAT BY REMOVING THE CONTRACT TERM AND NOTICE PROVISIONS AS YOU PROPOSE, WHILE CUSTOMERS MAY DESIRE TO LEAVE BUNDLED SERVICE TO TRY DELIVERY SERVICE, THIS DOES NOTHING TO ENCOURAGE THEM TO CHOOSE AN ALTERNATIVE SUPPLIER OVER RIDER PPO. HOW DO YOU RESPOND?

A Ms. Voiles misses the point in this regard. PPO service is a regulated rate. My purpose for extracting PPO customers from switching totals was to try to isolate the number of customers taking service from competitive suppliers. For some customers, PPO service represents a very significant step toward competitive supply, in that the customer leaves bundled service and begins delivery service, with a generation rate that is based on wholesale market prices, rather than cost of service. More customers trying delivery services, whether it be PPO service or competitive supply, will help development of the competitive market, as PPO customers will be forced to evaluate all their options at least yearly under PPO service. If and as customers gain an increased comfort level with delivery service over time, even if it is with the PPO, there is likely to be more interest in a competitive supply ultimately.

Implicit within Ms. Voiles' statement is the assumption that the market value under Rider PPO will always be less than what an alternative supplier may sell power and energy. While this may be true from time to time, this may not always be the case. Further, PPO will eventually no longer be effective or not available to customers with a zero transition charge. My recommended changes will serve as an inducement to these customers. Finally, customers may want more than just PPO prices for one year.

Customers often are interested in multi-year contracts for energy related services from suppliers.

Q MS. VOILES TESTIFIES THAT IP IS WILLING TO ALLOW AN SC 24 CUSTOMER OUTSIDE ITS PRIMARY TERM TO GIVE THE 12-MONTH NOTICE TO CANCEL SERVICE UNDER SC 24, BUT THEN ALLOW THE CUSTOMER TO RESCIND THAT NOTICE ANYTIME WITHIN THE ENSUING 10 MONTHS AND REMAIN ON SC 24.[8] DOES THIS OFFER SATISFY IIEC'S CONCERNS?

A No. The process of having to give notice and rescind the notice in order to remain on SC 24 is unnecessary and cumbersome. The customer should only have to give 30 days notice of its intent to leave SC 24 service. Even IP's proposed right to rescission does not alleviate the concern that a customer must give 12-months notice prior to switching to a competitive supply. Favorable opportunities may come and go within this 12-month "dead period" with the customer having no ability to take advantage.

Under IP's proposal, a customer would have to give notice of termination on one day, hoping that a competitive supply opportunity develops for service beginning 12 months thereafter. If near the end of the tenth month market conditions are not favorable, the customer would have to rescind notice, and would not have another opportunity for competitive supply for at least 12 months thereafter. This arrangement simply does not match up with the operating flexibility a customer needs to operate effectively within the competitive market.

By its agreement to allow customers to rescind notice within 60 days of the termination date, IP is tacitly admitting that 60 days notice is sufficient for making, or continuing, supply arrangements for customers under SC 24. While a 60-day notice of

[8] IP Ex. 5.11, page 15, lines 308-311.

termination under IP's SC 24 is not as competition-friendly as the 30-day notice period under IP's SC 21, it is obviously much better than the 12-month notice provision under SC 24 today. While IP has tacitly admitted it can make 60 days work, it has not claimed it cannot make 30 days work. IP should be required to allow customers to leave SC 24 service upon 30 days notice once outside the primary term, if they have paid for the facilities installed to serve them under SC 24 or agree to do so.

Q MS. VOILES AFFIRMS YOUR UNDERSTANDING THAT IP PROPOSES TO ESTABLISH A NEW FIVE YEAR PRIMARY TERM FOR A CUSTOMER WANTING TO RETURN TO SC 24. SHE GOES ON TO POINT OUT THAT A CUSTOMER WISHING TO RETURN TO SC 24 WOULD HAVE THE OPTION OF RETURNING TO SC 21 INSTEAD, WHICH DOES NOT REQUIRE A FIVE YEAR PRIMARY TERM. HOWEVER, SHE OBJECTS TO ALLOWING CUSTOMERS THE ENERGY CHARGE DISCOUNT UNDER SC 24 WITHOUT HAVING TO ACCEPT THE OTHER OBLIGATIONS UNDER THE TARIFF.[9] HOW DO YOU RESPOND?

A I do not propose that a customer taking service under SC 24 who is within its primary term be allowed to give notice and immediately begin delivery service, thereby avoiding the remainder of its primary term.[10] Instead, my proposal is that customers who have already fulfilled their obligation for a five-year primary term, should not be asked to fulfill it again. If these customers have already fulfilled their five-year primary term obligation once, and are willing to guarantee a certain level of kWh sales every month (as required under SC 24 service), they should be allowed to continue, or resume (as the case may be), SC 24 service. This should be true whether the customer has simply remained an

[9] IP Ex. 5.11, page 15, lines 299-322.

[10] In my direct testimony, I made reference to a customer <u>completing</u> a primary term upon return from delivery service. If a customer is beyond its initial primary term, or is willing to pay for facilities installed to serve them, this completion of a remaining primary term provision is not relevant.

SC 24 customer or has been an SC 24 customer, tried out delivery services, and returned to SC 24 service.

By pointing to the fact that the same customer could return to IP bundled service under SC 21, IP is admitting that serving the customer's load is not a supply or operational issue. A customer imposes the same supply and operational obligations on IP's system whether it is taking service under SC 24 or SC 21.

Q MS. VOILES ARGUES THAT YOUR PROPOSAL WOULD INCREASE THE LIKELIHOOD THAT CUSTOMERS ON SC 21, WHO WOULD HAVE NEVER CONSIDERED SC 24 UNDER ITS EXISTING TERMS AND CONDITIONS, WOULD FIND IT VERY ATTRACTIVE COMPARED TO SC 21.[11] HOW DO YOU RESPOND?

A As I stated, customers who have never been SC 24 customers should not be relieved of the five year primary term required under SC 24. If an SC 21 customer is interested in SC 24 service, the customer would be subject to the five-year primary term. Consequently, Ms. Voiles' criticism is misdirected.

[11] IP Ex. 5.11, page 16, lines 323-325.

Q **FINALLY, MS. VOILES IS CRITICAL OF YOUR PROPOSAL THAT IP SHOULD ALLOW CUSTOMERS TO RETURN TO BUNDLED SERVICE RATES UNDER THE CONDITIONS IN EXISTENCE WHEN THEY LEFT, INCLUDING THE OPTION TO RETURN TO INTERRUPTIBLE SERVICE CLASSIFICATIONS THAT HAVE BEEN CLOSED TO NEW CUSTOMERS. SHE GOES ON TO STATE THAT SUCH CUSTOMERS SHOULD NOT GET A "RISK FREE" TRY AT THE COMPETITIVE MARKET. HOW DO YOU RESPOND?**

A I am not asking IP to reopen such tariff options to new customers. Rather, I am proposing that customers who have an ongoing right to this service under bundled rates not be discouraged from trying delivery service for fear that they will lose a right that they would otherwise have. Also, Ms. Voiles fails to mention that my proposal has limited duration. As I stated in my direct testimony, at such times as customers have true competitive options for these kinds of services, IP should no longer be obligated to provide the rights to return that I have described.[12]

With regard to her suggestion that customers should not get a "risk free" try at the competitive market; I would assure Ms. Voiles that all customers trying out the competitive market are facing new risks to which they are unaccustomed under regulated bundled rates. My proposal merely seeks to reduce the risk faced when returning to bundled service, should that be the customers' desire.

Q **AT PAGES 13 AND 14 OF IP WITNESS LEONARD M. JONES' DIRECT TESTIMONY (IP EX. 6.6), HE INDICATES THAT THE AVERAGE REVENUE INCREASE FOR CUSTOMERS ABOVE 1,000 KW WOULD BE 39 PERCENT. HE THEN GOES ON TO SHOW THE PERCENT REVENUE INCREASES TO CUSTOMERS AT VARIOUS**

[12] See IIEC Ex. 1, pages 14 -15.

VOLTAGE LEVELS USING THE HYPOTHETICAL EXAMPLE SHOWN AT PAGE EIGHT OF YOUR DIRECT TESTIMONY. CAN YOU PLEASE SUMMARIZE THE VARIOUS RATE IMPACTS OF IP'S DIFFERENT PROPOSALS SO FAR IN THIS CASE?

A Yes, I can. In Table 2 in my direct testimony, I indicated the impact of IP's proposed increases on a hypothetical 5 MW customer using the rates in IP's original filing. However, IIEC was advised in late August that IP's original rates were in error, due to problems in IP's original filing, and showed revised unit charges associated with IP's original revenue requirement request and reflecting the corrections. Subsequently, in rebuttal testimony, IP has proposed a new set of rates, reflecting a change in rate design as described in Mr. Jones' rebuttal testimony. Table 2 Revised, below, summarizes the impact of all three scenarios.[13]

Table 2 Revised

Proposed Increase On Hypothetical 5 MW Customer

	Percentage Increase Under IP's Proposed Rates		
Service Voltage	**Original Filing**	**August Correction**	**Rebuttal Filing**
12.47 kV and below	21%	27%	16%
34.5 kV to 69 kV	77%	101%	55%
138 kV and above	143%	145%	75%

As the table above shows, the proposed impact on large customers has been swinging wildly over the course of the case and still very much depends on service voltage.

[13] Note that there is no Table 1 in this testimony. "Table 2 Revised" is used for comparability to my direct testimony.

Q DO YOU AGREE WITH MS. VOILES THAT THE MODIFIED RATE DESIGN THAT MR. JONES PRESENTS IN HIS REBUTTAL TESTIMONY WILL AMELIORATE SOME OF THE IMPACTS THAT CONCERN YOU?[14]

A While I agree that his approach produces the least onerous impacts of the IP proposals to date, there are still wide disparities in the impacts across service voltages. Since larger customers tend to take service at relatively higher voltages, they are still the ones likeliest to see large delivery service charge increases under IP's proposed rates, and my comments in this regard from my direct testimony continue to apply.

Neither IIEC witness Nicholas Phillips' proposed rates, nor the rates proposed in Staff witness Peter Lazare's direct testimony, indicate swings of this magnitude.

III. <u>Standby Capacity Requirements</u>

Q AT PAGE 21 OF HIS REBUTTAL TESTIMONY, MR. JONES INDICATES THAT IP NOW BELIEVES A PENALTY OF THREE TIMES THE DEMAND CHARGES FOR DEMAND IN EXCESS OF THE STANDBY CAPACITY SHOULD ONLY APPLY IF THE EXCESS IS MORE THAN 10 PERCENT OF THE STANDBY CAPACITY. HOW DO YOU RESPOND?

A While I appreciate IP's concession in this regard, I recommend that a penalty of triple the charges is unnecessary in any event. As I explained in my direct testimony at pages 18 and 19, standby customers already have adequate incentive to properly contract for standby capacity. Mr. Jones never counters my arguments. A trebling of the charges is unnecessary and punitive.

[14] IP Ex. 5.1, page 12, lines 243-244.

In addition, should the Commission approve IP's revised proposal for the triple charge penalty, it should specify that the penalty applies only to the demand in excess of the 10 percent over the standby capacity level.

Q **MR. JONES STATES THAT IN CASE OF EXCESS DEMAND, IP WILL AUTOMATICALLY INCREASE THE STANDBY CAPACITY LEVEL AND OFFERS THAT IP WILL REVIEW THE CUSTOMER'S STANDBY CAPACITY REQUIREMENT AFTER 12 MONTHS, BASED ON THE CUSTOMER'S DEMANDS IN THE INTERVENING PERIOD AND ITS CONNECTED LOAD, TO DETERMINE IF THE CUSTOMER'S STANDBY CAPACITY SHOULD BE LOWERED.[15] IS THIS ACCEPTABLE?**

A A better approach is that outlined in my direct testimony, wherein IP and customers simply renegotiate the standby capacity requirement. In that case, IP and the customer will have the benefit of knowing what caused the increased demand in the first instance and will know whether an increase in standby capacity is actually needed. Using this approach, it will not be necessary for IP to conduct a review after 12 months to see if the increased capacity was needed or not. Under the approach outlined in Mr. Jones' testimony, IP would have complete discretion to decide whether or not it believes a reversal is warranted, without input from the customer and with no apparent recourse to the customer should it disagree with IP's assessment. Leaving everything to IP's discretion and the customer without recourse is not an attractive option from the customer's point of view.

[15] IP Ex. 6.6, page 21, lines 444-450.

Q HOW DO YOU RESPOND TO IP'S NEW PROPOSAL TO USE DIVERSITY FACTORS TO CONVERT THE CUSTOMER'S STANDBY CAPACITY TO A BILLING DETERMINANT THAT IS MORE REPRESENTATIVE OF THE MONTHLY MAXIMUM DEMAND?[16]

A This is an improvement on IP's original proposal and should be accepted.

IV. Reactive Demand Charges

Q MR. JONES RESPONDS TO AN ASSERTION THAT YOU REQUESTED ADDITIONAL SUPPORT FOR THE COMPANY'S PROPOSED REACTIVE DEMAND CHARGE.[17] DID YOU MAKE SUCH A REQUEST?

A No. I indicated that IP's marginal cost basis for setting the reactive demand charge is inappropriate for use in embedded cost rate setting. I indicated IP had not provided information on the embedded cost of capacitors on the IP system. No doubling of the current charge is justified.

Q MR. JONES OFFERS ALLEGED COST SUPPORT FOR IP'S PROPOSED CHARGES IN HIS EXHIBIT 6.10, SCHEDULE 2, ITEM 5. IS THERE ANY NEW INFORMATION HERE?

A No. This is essentially the same marginal cost information provided in response to IIEC's Third Set of Data Requests, Item 43, which I addressed in my direct testimony. Even if one agrees with IP's numbers, the fact remains that these costs reflect the cost of new, or replacement, capacitors and have no bearing on the embedded or book cost

[16] IP Ex. 6.6, pages 22-24.
[17] IP Ex. 6.6, page 15, lines 297-298.

of the totality of capacitors on the IP system used by customers. Therefore, IP has yet to justify the change in reactive demand charges.

Q HAS IP PROVIDED ANY INFORMATION ON THE EMBEDDED COST OF CAPACITORS ON THE IP SYSTEM?

A Yes, it has. IP has indicated that the embedded cost of capacitors on the IP system is \$0.11 per kVAR.[18] This amount is similar to the current \$0.10 per kVAR charge under SC 110 and matches almost exactly the proposed reactive demand charge of IIEC witness Phillips as well as that shown on Schedule 5.6 of Staff witness Lazare's direct testimony, ICC Staff Ex. 5.0.

Q HOW DO YOUR RESPOND TO MR. JONES' CLAIM THAT "USE OF THE COST OF A NEWLY INSTALLED CAPACITOR BANK APPROPRIATELY REFLECTS THE ECONOMIC DECISION THAT CUSTOMERS FACE – EITHER TAKE STEPS TO MINIMIZE KVAR DEMAND OR PAY THE COMPANY'S REACTIVE DEMAND CHARGE"?

A As I explained in my direct testimony, this argument is irrelevant. The Commission has not declared reactive demand service as competitive; it is a part of the cost-based regulated rate. It is the actual cost that should be considered in determining the rate. IP's argument is tantamount to saying that a residential customer could buy a home generator and generate his own electrical needs for 50 cents per kWh; therefore, IP should be allowed to charge residential customers 50 cents per kWh, irrespective of IP's cost of service, since this "reflects the economic decision that customers face." This is obviously a ridiculous position.

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[18] IP response to IIEC's Fifth set of Data Requests, Item No. 78.

IP's revenue requirement is based on its embedded cost of service, not replacement or marginal cost. Sometimes marginal or replacement costs are used to allocate embedded revenues among customer groups or for design of rates to recover the embedded revenue requirement. Marginal or replacement costs are not appropriately used in place of embedded costs for regulated revenue requirement.

V. Transformation Charges

Q AT PAGES 12 AND 13 OF HER TESTIMONY, MS. VOILES PROVIDES SOME HISTORY OF HOW THE DISPARATE CHARGES FOR TRANSFORMATION BETWEEN CUSTOMERS ABOVE AND BELOW 3 MW CAME ABOUT. DO YOU HAVE ANY COMMENTS?

A Yes. The following statement by Ms. Voiles in this regard is curious:

> "The Commission required these larger customers to rent or own their transformation equipment, rather than imposing a fixed charge in the tariff because the cost of transformation equipment for large customers varies considerably based on the circumstances of each customer."[19]

I have reviewed the Commission's Order in the 1999 IP delivery service tariff case and have found no such requirement by the Commission; indeed I found no discussion of the issue even remotely similar in this regard. While the Commission did approve IP's proposed $0.50 per kW transformation charge for customers smaller than 3 MW, it does not appear that the issue was even discussed in the last DST case in the way described by Ms. Voiles.

Q MS. VOILES NOTES THAT IT WAS ONLY UPON REQUEST BY AN ABOVE 3 MW CUSTOMER THAT IP DECIDED TO OFFER THE OPTION OF TRANSFORMATION

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[19] IP Ex. 5.11, page 13, lines 256-259.

SERVICE BASED ON A TARIFF CHARGE SIMILAR TO THE CHARGE PAID BY CUSTOMERS UNDER ITS BUNDLED TARIFF. HOW DO YOU RESPOND?

A I find Ms. Voiles' description of the outcome of this offer particularly interesting. Despite the request, apparently when the customer found that it would have to pay a charge that is 50% higher than a customer of less than 3 MW, the customer ultimately decided to not avail itself of transformation at a tariffed service rate.

I also find interesting that when IP established the \$0.75 per kW charge for customers greater than 3 MW, it placed importance on the similarity to the charge paid by customers under the bundled rate (which is \$0.75 per kW for <u>all</u> customers). Apparently, IP placed no such importance on similarity to the bundled rate when it established the charge for customers below 3 MW at \$0.50 per kW.

Q **AT PAGE 16 OF HIS REBUTTAL TESTIMONY, MR. JONES RESPONDS TO AN ASSERTION THAT YOU REQUESTED ADDITIONAL SUPPORT FOR THE COMPANY'S PROPOSED TRANSFORMATION CAPACITY CHARGE. DID YOU MAKE SUCH A REQUEST?**

A No, I did not. Similar to IP's basis for its reactive demand charges, I indicated that IP's marginal cost basis for setting the transformation charge is inappropriate for use in an embedded cost rate setting. I also indicated that even under the marginal or replacement cost information provided by IP, there is no basis for a price disparity for transformation capacity between customers above and below 3 MW. Given that there had not been justification to have a higher transformation charge for customers greater than 3 MW than that charged to customers below 3 MW, I recommended that the charges be set at the same level.

Q **IN REBUTTAL TESTIMONY, HAS IP PROVIDED INFORMATION ON THE EMBEDDED COST OF PROVIDING TRANSFORMATION THAT WOULD ENABLE THE COMMISSION TO JUSTIFY IP'S PROPOSED COSTS?**

A No, it has not. On Schedule 2, item 4, page 1, Mr. Jones provides essentially the same marginal cost information that I summarized in Table 3 on page 23 of my direct testimony. IP modified the total cost downward slightly, reflecting a slight reduction in the O&M and A&G loading factors. Consequently, even assuming IP's annual carrying charge assumption and its O&M and A&G loading factors, the average cost of transformation for customers greater than 3 MW shown on Mr. Jones' schedule is $0.55 per kW. Excluding the sample transformer that is actually below 3 MW, the average marginal cost of the transformers above 3 MW drops to $0.44 per kW. Neither of these figures is significantly different from the $0.47 per kW average total cost associated with transformers below 3 MW, or anywhere near the proposed $0.75 per kW.

IP's proposed disparity between transformation charges for customers above and below 3 MW remains unjustified.

Q **HAS IP PROVIDED ANY INFORMATION ON THE EMBEDDED COST OF TRANSFORMATION ON THE IP SYSTEM?**

A Yes. In response to Item No. 79 from IIEC's Fifth Set of Data Requests, IP indicates that the embedded cost of transformation on the IP system is $1.12 per kW. Obviously this figure is significantly different from the marginal or replacement costs used by Mr. Jones as the alleged basis for IP's proposed transformation charges.

Mr. Jones seeks to preclude the use of embedded costs for transformation at page 17 of his rebuttal testimony, stating that:

> "The Company's property accounting system does not provide sufficient detail to determine if a transformer or substation is connected directly to a customer's delivery point or not."

Consequently, while the absolute level of transformation charges appropriate for SC 110 may be somewhat in question, the basis for a differential between the smaller customers and the larger customers is simply non-existent.

VI. <u>Rider ISS</u>

Q AT PAGE 6 OF HIS REBUTTAL TESTIMONY, IP EXHIBIT 11.1, IP WITNESS MARK J. PETERS EXPLAINS HIS REASONS WHY HE BELIEVES A SURCHARGE IS IMPORTANT AS AN INCENTIVE TO CUSTOMERS TO MAKE A DECISION AND MOVE OFF RIDER ISS AS QUICKLY AS POSSIBLE. DO YOU BELIEVE CUSTOMERS NEED AN INCENTIVE TO MOVE OFF RIDER ISS QUICKLY?

A No, I do not. Mr. Peters fails to mention that there is a set limit of up to two billing cycles on Rider ISS. As one who has worked with customers in the process of seeking out and entering into alternative supply arrangements, I can state that a maximum of two billing cycles does not allow for a leisurely pace in making the arrangements. Among other things, customers must seek out alternate suppliers (perhaps via a formal request for proposals), wait for suppliers to prepare a price offering(s), evaluate the various offers, work out contract details and enter into contracts, all in sufficient time for the supplier to make sure they have sufficient transmission capabilities and to operate within DASR lead-time constraints. Customers who have suddenly lost their supplier need no additional incentive to operate expeditiously.

Q MR. PETERS STATES THAT THERE ARE MORE ADMINISTRATIVE COSTS IN SUPPLYING RIDER ISS THAN JUST "SPOT MARKET PRICE RISK." HE THEN

GOES ON TO EXPLAIN THAT AMONG THESE POTENTIAL COSTS ARE ENERGY IMBALANCE AND PENALTY CHARGES FOR UNAUTHORIZED USE OF TRANSMISSION SERVICES. WOULD YOUR PROPOSAL DENY IP THE OPPORTUNITY TO RECOVER REAL ADMINISTRATIVE COSTS?

A No, quite to the contrary. My proposal explicitly states that IP should be allowed to recover its real administrative costs not already included in delivery service rates. I merely stated that IP had not, and still has not, demonstrated that these charges vary with the price of power or are in any way related to the markups IP has proposed. Moreover, Mr. Peters' reference to "potential costs" is an appropriate description, as IP has not prepared a quantification of these costs.

Q **DO YOU AGREE WITH MR. PETERS' ASSESSMENT THAT IP IS SUBJECT TO MORE THAN THE SPOT MARKET PRICE?**

A Not entirely. While there may be exposure to some costs, IP has yet to demonstrate it has or that it is reasonably likely to incur additional costs. To date, Rider ISS load is being served as part of its aggregated, unbundled service. It should be understood that IP is not purchasing power and energy specifically for Rider ISS. IP's existing purchased power contracts cover Rider ISS power and energy needs.

Moreover, IP has not separately identified an energy imbalance charge due to a Rider ISS customer taking this service, nor has it identified specific transmission charges. While IP claims a Rider ISS customer should be responsible for point-to-point transmission charges, no proof of cost incurrence has been forthcoming. Instead, it would appear the transmission charges imposed by a Rider ISS customer could be either for network integration or point-to-point service.

Q HOW DOES THE "RECOVERY FACTOR" OF 0.90 CENTS PER KWH COMPARE TO THE 10 PERCENT ADDER THAT IP ALSO ADDS TO THE HOURLY PRICE UNDER RIDER ISS?

A Obviously, the 0.90¢ per kWh relationship to the 10% adder will depend on the hourly price at the time. Assuming an average hourly DA-RTP price of 3¢ per kWh (representative of IP's average price in 2000), the 0.90¢ per kWh recovery factor is equal to an additional 30% adder on the hourly price. Hence, under IP's percentage adder and recovery factor, IP could expect to recover about a 40% premium over and above the hourly cost, under this example. This level of margin is not justified.

Q AT PAGE 14 OF HIS TESTIMONY, MR. PETERS INDICATES THAT IF YOUR RECOMMENDATION TO EXCLUDE THE ADDITIONAL CHARGES IN RIDER ISS WAS ACCEPTED, THIS WOULD GIVE RISE TO MORE CUSTOMERS UTILIZING THE SERVICE AS AN ACCEPTABLE SUPPLY OPTION. HOW DO YOU RESPOND?

A First, this appears to contradict Mr. Peters' testimony at page 6, lines 109 – 110 where he indicates that, based on IP's actual experience, it may be the RESs who place customers on ISS, not the customers themselves. Setting that aside, however, his testimony fails to recognize the very nature of ISS. ISS was implemented to provide for continued service and a billing mechanism in the events described in IP's SC 110 tariff. I am not aware of circumstances in which a customer consciously places itself on Rider ISS. In my experience, customers are more interested in contracting with a reliable RES for a fixed term. They are not in the habit of seeking suppliers who will suddenly stop serving them in order that they can place themselves on Rider ISS.

Further, there has been no demonstration by IP that a 10% surcharge plus a 0.90¢ per kWh recovery factor over and above the hourly real-time price would induce any different customer behavior under Rider ISS. Stated another way, if a customer is already facing summer real-time prices of 11¢ per kWh, for example, the customer already has adequate incentive to act expeditiously to change the situation and seek a lower cost supply source. There is no indication that the customer would act any more expeditiously if the charge was 13¢ per kWh (11¢ per kWh + 10% + 0.9¢ per kWh) instead. In my opinion, these surcharges are unneeded, would have little motivational impact on customers, and would merely result in additional and undue revenue to IP.

Finally, as I understand IP's proposed Rider ISS, RESs and customers alike should seek to avoid being on Rider ISS, given IP's proposal that the existing RES would no longer be eligible to provide service to the customer.[20]

Q AT PAGE 12 OF HIS TESTIMONY, MR. PETERS DISTINGUISHES BETWEEN THE HOURLY PRICES UNDER RIDER DA-RTP AND THE COMPENSATION IP WOULD RECEIVE FROM A RIDER DA-RTP CUSTOMER FOR THE CUSTOMER BASELINE LOAD (CBL) PRICED AT THE BASE TARIFF, AND SUGGESTS THAT IP WOULD NOT BE PROPERLY COMPENSATED AT THE HOURLY PRICE. HOW DO YOU RESPOND?

A Mr. Peters seems to be melding the issue of bundled service under Rider DA-RTP with Rider ISS, which is an unbundled service. Under Rider DA-RTP (and two part RTP rate designs generally) the payment for the CBL level of usage at the standard rate serves to provide compensation to the utility based on the comparable bundled service rate. This can include uneconomic costs of generating capacity or other charges built into base rates.

[20] IP Ex. 5.9, page 2, paragraph 3(b).

Rider ISS on the other hand, is an unbundled generation service provided in conjunction with the SC 110 delivery service. To the extent there were uneconomic or other generation capacity costs that would have been recoverable under bundled rates, IP would be compensated for these costs through its transition charge. Heaping adders and surcharges onto the hourly price under Rider DA-RTP does not reflect the market price of providing the service and has the potential to double-collect certain costs. Rider ISS should not become a profit center for the utility.

Q PLEASE COMMENT ON ICC STAFF WITNESS CHERI L. HARDEN'S (ICC STAFF EX. NO. 6) RECOMMENDATIONS AS REGARDS RIDER ISS.

A The main thrust of Ms. Harden's testimony is to recommend that Rider ISS be based on bundled tariff rates for residential customers, plus a 10 percent adder. I have explained in my direct testimony and in my response to IP witness Peters why the 10% mark-up is not necessary, is punitive, is not cost-based, and is unlikely to provide any meaningful incentive of the nature desired by IP and acknowledged by Ms. Harden.

I reiterate my recommendation from my direct testimony, that if IP is able to demonstrate a real administrative cost associated with serving Rider ISS customers that is not already covered in the delivery service revenue requirement, then a commensurate fee based on the actual cost of administering the service would be appropriate. The fee should not be based on a percentage of the price, as there has been no demonstration that the administrative cost varies with the price of power.

Finally, my commentary above should not be construed as implied endorsement for Staff's version of Rider ISS. Indeed, IIEC objects to the notion that residential customers taking that service would be subject to bundled energy prices, while non-residential customers would be subject to market energy prices. The Staff's position has the potential to create wrong incentives to suppliers and customers alike.

VII. Rider PRS

Q MR. JONES (PAGE 27) AND MS. VOILES (PAGE 14) INDICATE THAT THEY HAVE WITHDRAWN THE HOURLY PRICING OPTION UNDER RIDER PRS, IN RESPONSE TO YOUR TESTIMONY. THIS WOULD LIMIT THE CUSTOMER TO STANDARD BUNDLED TARIFF SERVICE FOR LOAD LEFT ON THE UTILITY SYSTEM. HOW DO YOU RESPOND?

A First let me summarize and clarify my position in direct testimony. In my direct testimony, I objected to proposed Rider PRS as it was based solely on IP's hourly pricing proposal and eliminated the possibility of customers using the bundled service tariff, as is allowed under the current SC 110. As such, it limited customers' options and did not represent the "lowest reasonably available cost to the electric utility of acquiring electric power and energy on the wholesale market." I was also critical of certain of the terms of service and adders.

Now, in rebuttal, IP has swung to the other extreme. IP has withdrawn the hourly pricing option completely, without explanation. By so doing, IP is removing an option with potentially favorable attributes. Neither of IP's bundled real time pricing programs, Riders DA-RTP and DA-RTP II, appears to be compatible with partial requirements service. In theory, hourly pricing programs can benefit both the utility and customers as they can send price signals reflective of cost of service. IP recognizes this in pricing its Rider ISS.

Q WHAT IS YOUR RECOMMENDATION IN THIS REGARD?

A Ideally, IP would have made the improvements to its originally proposed Rider PRS and added standard bundled tariff service as an option under the Rider. Now, IP is "throwing the baby out with the bathwater" by eliminating the hourly pricing option altogether. Despite my earlier criticisms of certain of the terms of service and adders, as long as customers hâve the option to use bundled service for this purpose, an hourly pricing option should be available.

I recommend the Commission modify Rider PRS to provide for both the hourly pricing option originally proposed by IP (with modifications per my direct testimony), and the option to utilize the bundled service tariffs. Failing that, I recommend Rider PRS be approved with both the hourly pricing option (as originally proposed by IP) and the option to utilize the bundled service tariffs. Giving the customers these options should aid in facilitating choice and should be compensatory to IP.

VIII. Ultimate Consumer of Transmission Service

Q AT PAGE FIVE OF HER REBUTTAL TESTIMONY, MS. VOILES RESPONDS TO ICC STAFF WITNESS DAVID BORDEN REGARDING RETAIL CUSTOMERS' ULTIMATE LIABILITY FOR TRANSMISSION CHARGES. DO YOU CARE TO COMMENT?

A Yes. Ms. Voiles states that pursuant to the IP Open Access Transmission Tariff (OATT), "any Retail Customer taking unbundled transmission service pursuant to a state requirement that the Transmission Provider offer the transmission service, or pursuant to a voluntary offer of service by the Transmission Provider is an Eligible Retail Customer under the tariff." She goes on to state that, "The purpose of including the provisions set forth in Section 8.D. of proposed SC 110 is to make it abundantly clear in SC 110 that the agency relationship established pursuant to that rate schedule and the OATT may result in a Retail Customer who is responsible for the payment of transmission service charges if the customer's RES or TSA does not pay."

Ms. Voiles has highlighted an area of concern. Paragraph 1(c) of IP's proposed SC 110 provides as follows:

> ". . . that the Customer Self-Manager or Customer's Retail Electric Supplier has designated a Transmission Service Agent to act on Customer's behalf and the TSA has arranged for sufficient Transmission Service to accommodate Customer's load;"

Similarly, "Transmission Service" is defined in paragraph 5 of IP's proposed Standard Terms and Conditions as follows:

> "Transmission Service means the service provided <u>to Customer</u> under the OATT of Utility, its affiliated transmission provider or the regional transmission organization of which Utility or its affiliated transmission provider is a part." (Emphasis added)

IP's proposed SC 150[21] contains similar provisions.

Neither IP's proposed SC 110 nor its SC 150 describes conditions wherein a RES can take transmission service on its own behalf and ultimately be responsible for transmission arrangements and transmission charges. Ms. Voiles' support for her claim that a retail delivery services customer is <u>the</u> transmission customer under the OATT rests with the definition of Eligible Customer in the OATT. However, IP's OATT is not as narrowly defined as Ms. Voiles suggests. IP's OATT defines Eligible Customer as follows:[22]

> (i) Any electric utility (including the Transmission Provider and any power marketer), Federal power marketing agency, or any person generating electric energy for sale for resale is an Eligible Customer under the Tariff. Electric energy sold or produced by such entity may be electric energy produced in the United States, Canada or Mexico. However, with respect to transmission service that the Commission is prohibited from ordering by Section 212(h) of the Federal Power Act, such entity is eligible only if the service is provided pursuant to a state requirement that the

[21] Service for Customer Self-Managers, Retail Electric Suppliers and Meter Service Providers.

[22] IP's OATT actually has a third category of Eligible Customers, relating to customers under a pilot retail access program which expired in 1999. This category has been omitted above for brevity.

> Transmission Provider offer the unbundled transmission service, or pursuant to a voluntary offer of such service by the Transmission Provider. (ii) Any retail customer taking unbundled Transmission Service pursuant to a state requirement that the Transmission Provider offer the transmission service, or pursuant to a voluntary offer of such service by the Transmission Provider, is an Eligible Retail Customer under the Tariff.

This section of the OATT merely indicates what sorts of entities are eligible for service under the OATT. In my opinion, it has nothing to do with the structuring of a competitive market, nor end-user liability for charges. I echo Mr. Borden's claim that "it is unreasonable to expect that retail customers, other than a select minority, have knowledge or expertise as to the provision of transmission service and the associated costs, and thus have little or no knowledge as to the financial liability they are assuming."[23]

Q **WHAT IS YOUR RECOMMENDATION IN THIS REGARD?**

A Through the use of certain provisions of its terms and conditions, SC 110, and SC 150, IP appears to limit the potential transactional arrangements for customers in a retail access market. I see no reason why it should not be possible for transactions to be structured in such a way that the RES, and only the RES, is liable for transmission service under the provisions of the OATT.

Borrowing Mr. Borden's hypothetical from the current ComEd delivery services tariff case, wherein he purchases a television set from Best Buy and Best Buy pays the railroad for transporting the televisions to the store, Mr. Borden has no relationship or liability to the railroad directly. Best Buy is the consumer of railroad transport service, while Mr. Borden is the consumer of the television set (including the distribution service by Best Buy). When Mr. Borden buys this television set, it is retail priced at the Best Buy

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[23] ICC Staff Ex. 8.0, page 4, lines 63 – 67.

store, taking into account all upstream costs, as necessary. There is no reason why a retail power and energy transaction should not be allowed to proceed on a similar basis; that is, with the RES' power priced at the transmission/distribution interface (for example) with no ongoing liability on the end-use customer for transmission service.

Customers should have the option to structure the transaction either way; that is, (1) with a customer purchasing transmission service (with the RES acting as his agent, as necessary), or (2) with the RES purchasing the transmission service to move its power from the receipt point to its delivery point (e.g., the transmission/distribution interface). There may be valid reasons why some customers and RES prefer one approach to the other. I see no valid reason why they should not have a choice. In the latter case, where the RES is the transmission customer on its own behalf, the ultimate retail customer would have no direct contractual or tariff relationship with the transmission provider, and it is difficult for me to see how the retail customer could be liable for unpaid transmission charges by the RES.

IX. Rider PPO Service

Q **DID MS. VOILES RESPOND TO YOUR CONTENTION REGARDING THE INCLUSION OF FACTOR A4(c) IN RIDER PPO?**

A Yes, but only to the extent that she reiterated what she had said in her direct testimony. In brief response, I cannot see a benefit to including this placeholder at this time, given the current uncertainty. If future circumstances warrant a change, IP can make the filing at that time.

Q **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A Yes, it does.

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